

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

THE APPLICATION OF THE ELIHU-RUSH BRANCH)
WATER ASSOCIATION, INC., OF PULASKI COUNTY,)
KENTUCKY, FOR (1) A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY AUTHORIZING AND)
PERMITTING SAID WATER ASSOCIATION TO CON-)
STRUCT A WATER WORKS CONSTRUCTION PROJECT,)
CONSISTING OF EXTENSIONS, ADDITIONS AND)
IMPROVEMENTS TO THE EXISTING WATERWORKS) CASE NO. 8224
SYSTEM OF THE ASSOCIATION; AND (2) APPROVAL)
OF THE PROPOSED PLAN OF FINANCING OF SAID)
PROJECT; AND (3) APPROVAL OF THE INCREASED)
WATER RATES PROPOSED TO BE CHARGED BY THE)
ASSOCIATION TO THE CUSTOMERS OF THE ASSOCIA-)
TION)

O R D E R

On April 16, 1981, Elihu-Rush Branch Water Association, Inc., ("Elihu-Rush") filed an application with this Commission seeking (1) a certificate of convenience and necessity permitting it to undertake a waterworks construction project, (2) approval of the proposed plan of financing of said project, and (3) approval of an increase in water rates charged to its customers. The proposed rates would produce additional revenues of \$15,588 annually, an increase of 20.6 percent above normalized test year operating revenues.

On May 19, 1981, the Commission issued an Order wherein the matter was set for hearing on July 29, 1981, and Elihu-Rush was directed to give notice to its customers of the proposed rate increase and the scheduled hearing.

On April 22, 1981, the Consumer Protection Division in the Office of the Attorney General filed a motion to intervene in this proceeding, which was sustained. It was subsequently withdrawn on July 24, 1981.

The hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky. On September 28, 1981, the Commission issued an Interim Order which approved the proposed waterworks construction project and the proposed plan of financing. This Order addresses the proposed increase in water rates.

COMMENTARY

Elihu-Rush is a non-profit water distribution system organized and existing under the laws of the Commonwealth of Kentucky serving approximately 423 consumers in southeastern Pulaski County, Kentucky. Elihu-Rush purchases all of its water from Kentucky Water Service Company, Inc., of Somerset, Kentucky.

TEST YEAR

In its initial petition Elihu-Rush proposed the 12 months ending December 31, 1979, as the test period for determining the reasonableness of the proposed rates. In amendments filed July 9, 1981, Elihu-Rush proposed a more current test year ending April 30, 1981, which the Commission has adopted. In utilizing the historic test period the Commission has given full consideration to known and measurable changes where appropriate.

REVENUES AND EXPENSES

Elihu-Rush proposed, on the comparative income statement included in the final engineering report, several adjustments to

revenues and expenses which the Commission finds to be proper and acceptable for rate-making purposes, with the following modifications:

1. The Commission has increased revenues from water sales by \$12,265 to reflect the normalization of revenues based on the additional customers resulting from the current construction project. This adjustment reduces Elihu-Rush's proposed adjustment of \$27,853 to exclude the additional revenues that would be generated as a result of the proper increase in rates being applied to the additional sales.

2. Elihu-Rush proposed to increase its purchased water cost by \$4,419 to reflect the greater volume of purchases necessary to serve new customers as a result of the approved extension of the distribution system. The Commission has reduced this adjustment by \$2,033 to reflect the pro forma expense for purchased water based on a 15 percent allowance for line loss. Elihu-Rush stated that its actual test year loss of 22 percent was the result of a malfunctioning master meter that has since been repaired. The Commission, therefore, is of the opinion that its policy of allowing a maximum of 15 percent line loss for rate-making purposes should be applied in this instance.

3. Elihu-Rush proposed adjustments in the amount of \$348 for projected increases in freight expense, equipment rental, telephone expense, and accounting fees. The Commission is of the opinion that adjustments of this type are arbitrary in nature and do not reasonably project the level of expense that Elihu-Rush may incur in the future. Therefore, these adjustments have not been allowed for rate-making purposes.

4. Elihu-Rush proposed adjustments totalling \$424 for increases in office expense, supplies, water repairs, and meter changes based on the additional customers resulting from the current construction project. The Commission is of the opinion that these expenses are not related to the number of customers served to the extent indicated by Elihu-Rush and that these adjustments do not reasonably project the level of expense that may be incurred in the future. Therefore, these adjustments have not been allowed for rate-making purposes.

5. Elihu-Rush proposed an adjustment of \$6,426, increasing depreciation expense from \$11,904 to \$18,330, to reflect the plant additions proposed in this proceeding. This reflects depreciation on total plant based on a composite rate of approximately two percent. The Commission is of the opinion that depreciation on contributed property should not be allowed for rate-making purposes, as that would allow the recovery of costs not actually incurred. Therefore, the Commission has excluded the proposed adjustment and reduced the test year expense to exclude depreciation on contributed property. The Commission finds the value of Elihu-Rush's pro forma non-contributed plant in service to be \$319,981, including the \$98,400 approved by interim order in this case. The resulting expense based on a straight line depreciation two percent composite rate is \$6,400.

6. Elihu-Rush proposed an adjustment of \$641 to reduce interest and other income from the test year level of \$4,526. The Commission is of the opinion that Elihu-Rush did not adequately support this adjustment through any evidence submitted in the record and therefore it has not been allowed for rate-making purposes.

7. Elihu-Rush proposed an adjustment of \$4,920 to increase interest expense for the \$98,400 in additional indebtedness assumed as a result of the current construction project. The Commission has reduced this by \$370 to exclude interest on long-term debt retired during the test period.

The effect of the allowed adjustments on the operations of Elihu-Rush is as follows:

	<u>Actual Test Year</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenue	\$63,477	\$12,265	\$75,742
Operating Expenses	67,946	1,442	69,388
Operating Income	<u>\$(4,469)</u>	<u>\$10,823</u>	<u>\$ 6,354</u>
Interest on Long-Term Debt	10,862	4,550	15,412
Interest and Other Income	4,526	-0-	4,526
Net Income	<u>\$(10,805)</u>	<u>\$ 6,273</u>	<u>\$(4,532)</u>

REVENUE REQUIREMENTS

Elihu-Rush's proposed rates were designed to produce revenues that would provide a 1.1 coverage of cash operating expenses and debt service payments. This proposal is similar to the debt service coverage method which the Commission has found to be a fair, just, and reasonable method of determining revenue requirements for non-profit water utilities. However, the Commission finds no reason to deviate from its established policy. The Commission, utilizing a debt service coverage of 1.5 plus cash operating expenses, therefore finds that Elihu-Rush's total revenue requirement is \$91,679. In order to achieve this level of revenue, Elihu-Rush's operating revenue from water sales should be increased by \$11,411.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates in Appendix A are the fair, just, and reasonable rates for Elihu-Rush in that they will produce annual revenue from water sales of approximately \$87,153 and should be approved. This revenue along with interest and other income of \$4,526 will result in total annual revenues of \$91,679 which will be sufficient to meet Elihu-Rush's operating expenses found reasonable for rate-making expenses, service its debt, and provide a reasonable surplus.

2. The rates proposed by Elihu-Rush would produce revenues in excess of those found to be reasonable herein and should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the rates in Appendix A attached hereto and made a part hereof, are approved for service rendered by Elihu-Rush Branch Water Association, Inc., on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Elihu-Rush Branch Water Association, Inc., are hereby denied.

IT IS FURTHER ORDERED that Elihu-Rush Branch Water Association, Inc., shall file with the Commission within 30 days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 10th day of November, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vob
Chairman

ATTEST:

Katharine Randall
Vice Chairman

Secretary

Jim Carigan
Commissioner

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8224 DATED NOVEMBER 10, 1981

The following rates and charges are prescribed for all customers in the area served by Elihu-Rush Branch Water Association. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

Rates: Monthly

First 2,000 gallons	\$ 9.00 Minimum Bill
Next 3,000 gallons	2.30 per thousand gallons
Next 5,000 gallons	1.55 per thousand gallons
Over 10,000 gallons	1.35 per thousand gallons

MINIMUM WATER RATES BASED ON SIZE CONNECTIONS

<u>Size of Water Meter Connection</u>	<u>Number of Gallons Of Water Per Month To Be Provided For The Minimum Rate</u>	<u>Minimum Monthly Water Rate Per Connection</u>
5 x 3/4 inch	2,000 gallons	\$ 9.00
1 inch	3,305 gallons	12.00
1½ inch	7,645 gallons	20.00

CONNECTION CHARGES

<u>Size of Meter</u>	<u>Connection Charge</u>
5/8 x 3/4 inch	\$250.00
1 inch	325.00
1½ inch	450.00